

AMENDED IN SENATE MAY 21, 1997

AMENDED IN SENATE MAY 8, 1997

SENATE BILL

No. 1080

Introduced by Senator Calderon

February 28, 1997

An act to amend Sections 15052 and 16956 of, and to repeal and add Section 16955.5 of, the Corporations Code, relating to limited liability partnerships.

LEGISLATIVE COUNSEL'S DIGEST

SB 1080, as amended, Calderon. Limited liability partnerships.

The Uniform Partnership Act and the Uniform Partnership Act of 1994 require a registered limited liability partnership or foreign limited liability partnership to maintain and provide for security for claims against it, as specified. With respect to these limited liability partnerships that provide accountancy services for claims based upon acts, errors, or omissions arising out of the practice of public accountancy, the security may be provided through the maintenance of a policy or policies of insurance the maximum amount of which need not exceed \$5,000,000, for claims initially asserted in any one calendar year, less amounts paid in defending, settling, or discharging those claims, or through the maintenance in trust or bank escrow, bank certificates of deposit, United States Treasury obligations, bank letters of credit, or bonds of insurance companies the maximum amount of which need not exceed \$5,000,000, for claims initially asserted in any one

calendar year, less amount paid in defending, settling, or discharging those claims. Existing law contains comparable provisions regarding security with respect to registered limited liability partnerships or foreign limited liability partnership that provide legal services, except that the maximum amount need not exceed \$7,500,000.

This bill would, with respect to the policies of insurance described above, authorize those policies to be issued on a claims made or occurrence basis and would further provide that the impairment or exhaustion of the aggregate limit of liability by amounts paid in connection with the settlement, discharge, or defense of claims would not require the partnership to acquire additional insurance coverage for the policy period. The bill would further provide that these policies of insurance may be subject to a deductible or self-insured retention, as specified.

The bill also would, with respect to security provided through the alternative methods specified above, provide that a partnership remains in compliance with the security provisions notwithstanding the amounts paid during a calendar year in defending, settling, or discharging those claims as long as the amount of the security was a specified amount on the first business day of that calendar year. The bill would also deem a partnership to be in compliance with this requirement if the partnership has designated and segregated the necessary funds within 30 days after the time that a claim is initially asserted. *The bill would make related changes.*

The bill would also revise provisions relating to the election of a limited liability partnership to be subject to the law in effect prior to January 1, 1997, or current law. Among other things, it would provide that the election shall terminate on January 1, 1999, rather than January 1, 1998.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 15052 of the Corporations Code
2 is amended to read:



1 15052. (a) At the time of registration pursuant to
2 Section 15049, in the case of a registered limited liability
3 partnership, and Section 15055, in the case of a foreign
4 limited liability partnership, and at all times during which
5 those partnerships shall transact intrastate business,
6 every registered limited liability partnership and foreign
7 limited liability partnership, as the case may be, shall be
8 required to provide security for claims against it as
9 follows:

10 (1) For claims based upon acts, errors, or omissions
11 arising out of the practice of public accountancy, a
12 registered limited liability partnership or foreign limited
13 liability partnership providing accountancy services shall
14 comply with one, or pursuant to subdivision (b) some
15 combination, of the following:

16 (A) Maintaining a policy or policies of insurance
17 against liability imposed on or against it by law for
18 damages arising out of claims in an amount for each claim
19 of at least one hundred thousand dollars (\$100,000)
20 multiplied by the number of licensed persons rendering
21 professional services on behalf of the partnership;
22 however, the total aggregate limit of liability under the
23 policy or policies of insurance *for partnerships with fewer*
24 *than five licensed persons shall not be less than five*
25 *hundred thousand dollars (\$500,000), and for all other*
26 *partnerships* is not required to exceed five million dollars
27 (\$5,000,000) in any one designated period, less amounts
28 paid in defending, settling, or discharging claims as set
29 forth in this subparagraph. The policy or policies may be
30 issued on a claims-made or occurrence basis, and shall
31 cover (i) in the case of a claims-made policy, claims
32 initially asserted in the designated period, and (ii) in the
33 case of an occurrence policy, occurrences during the
34 designated period. For purposes of this subparagraph,
35 “designated period” means a policy year or any other
36 period designated in the policy that is not greater than 12
37 months. The impairment or exhaustion of the aggregate
38 limit of liability by amounts paid under the policy in
39 connection with the settlement, discharge, or defense of
40 claims applicable to a designated period shall not require

1 the partnership to acquire additional insurance coverage
2 for that designated period. The policy or policies of
3 insurance may be in a form reasonably available in the
4 commercial insurance market and may be subject to
5 those terms, conditions, exclusions, and endorsements
6 that are typically contained in those policies. A policy or
7 policies of insurance maintained pursuant to this
8 subparagraph may be subject to a deductible or
9 ~~self-insured retention not to exceed a maximum amount~~
10 ~~equal to 10 percent of the aggregate limit of liability~~
11 ~~specified by this subparagraph. However, a deductible or~~
12 ~~self-insured retention may exceed that maximum amount~~
13 ~~if the partnership maintains funds in the manner~~
14 ~~provided for in subparagraph (B) in the amount of the~~
15 ~~difference between the actual deductible or self-insured~~
16 ~~retention and that maximum amount, or otherwise~~
17 ~~obtains a commitment of the insurer issuing the policy to~~
18 ~~the effect that the insurer will cover the difference.~~
19 *self-insured retention.*

20 *Upon the dissolution and winding up of the*
21 *partnership, the partnership shall, with respect to any*
22 *insurance policy or policies then maintained pursuant to*
23 *this subparagraph, maintain or obtain an extended*
24 *reporting period endorsement or equivalent provision in*
25 *the maximum total aggregate limit of liability required to*
26 *comply with this subparagraph for a minimum of three*
27 *years if reasonably available from the insurer.*

28 (B) Maintaining in trust or bank escrow, cash, bank
29 certificates of deposit, United States Treasury obligations,
30 bank letters of credit, or bonds of insurance or surety
31 companies as security for payment of liabilities imposed
32 by law for damages arising out of all claims in an amount
33 of at least one hundred thousand dollars (\$100,000)
34 multiplied by the number of licensed persons rendering
35 professional services on behalf of the partnership;
36 however, the maximum amount of security *for*
37 *partnerships with fewer than five licensed persons shall*
38 *not be less than five hundred thousand dollars (\$500,000),*
39 *and for all other partnerships* is not required to exceed
40 five million dollars (\$5,000,000). The partnership remains

1 in compliance with this section during a calendar year
2 notwithstanding amounts paid during that calendar year
3 from the accounts, funds, Treasury obligations, letters of
4 credit, or bonds in defending, settling, or discharging
5 claims of the type described in this paragraph, provided
6 that the amount of the accounts, funds, Treasury
7 obligations, letters of credit, or bonds was at least the
8 amount specified in the preceding sentence as of the first
9 business day of that calendar year. Notwithstanding the
10 pendency of other claims against the partnership, a
11 registered limited liability partnership or foreign limited
12 liability partnership shall be deemed to be in compliance
13 with this subparagraph as to a claim if within 30 days after
14 the time that a claim is initially asserted through service
15 of a summons, complaint, or comparable pleading in a
16 judicial or administrative proceeding, the partnership has
17 provided the required amount of security by—~~designated~~
18 ~~and segregated~~ *designating and segregating* funds in
19 compliance with the requirement of this subparagraph.

20 *(C) Unless the partnership has satisfied subparagraph*
21 *(D), each partner of a registered limited liability*
22 *partnership or foreign limited liability partnership*
23 *providing accountancy services, by virtue of that person's*
24 *status as a partner, thereby automatically guarantees*
25 *payment of the difference between the maximum*
26 *amount of security required for the partnership by this*
27 *paragraph and the security otherwise provided in*
28 *accordance with subparagraphs (A) and (B), provided*
29 *that the aggregate amount paid by all partners under*
30 *these guarantees shall not exceed the difference. Neither*
31 *withdrawal by a partner nor the dissolution and winding*
32 *up of the partnership shall affect the rights or obligations*
33 *of a partner arising prior to withdrawal or dissolution and*
34 *winding up, and the guarantee provided for in this*
35 *subparagraph shall apply only to conduct that occurred*
36 *prior to the withdrawal or dissolution and winding up.*
37 *Nothing contained in this subparagraph shall affect or*
38 *impair the rights or obligations of the partners among*
39 *themselves, or the partnership, including, but not limited*
40 *to, rights of contribution, subrogation, or indemnification.*

1 (D) Confirming, pursuant to the procedure in
2 subdivision (c), that, as of the most recently completed
3 fiscal year of the partnership, it had a net worth equal to
4 or exceeding ten million dollars (\$10,000,000).

5 (2) For claims based upon acts, errors, or omissions
6 arising out of the practice of law, a registered limited
7 liability partnership or foreign limited liability
8 partnership providing legal services shall comply with
9 one, or pursuant to subdivision (b) some combination, of
10 the following:

11 (A) Each registered limited liability partnership or
12 foreign limited liability partnership providing legal
13 services shall maintain a policy or policies of insurance
14 against liability imposed on or against it by law for
15 damages arising out of claims in an amount for each claim
16 of at least one hundred thousand dollars (\$100,000)
17 multiplied by the number of licensed persons rendering
18 professional services on behalf of the partnership;
19 however, the total aggregate limit of *liability under the*
20 *policy or policies of* ~~liability under insurance~~ *insurance*
21 *for partnerships with fewer than five licensed persons*
22 *shall not be less than five hundred thousand dollars*
23 *(\$500,000), and for all other partnerships* is not required
24 to exceed seven million five hundred thousand dollars
25 (\$7,500,000) in any one designated period, less amounts
26 paid in defending, settling, or discharging claims as set
27 forth in this subparagraph. The policy or policies may be
28 issued on a claims-made or occurrence basis, and shall
29 cover (i) in the case of a claims-made policy, claims
30 initially asserted in the designated period, and (ii) in the
31 case of an occurrence policy, occurrences during the
32 designated period. For purposes of this subparagraph,
33 “designated period” means a policy year or any other
34 period designated in the policy that is not greater than 12
35 months. The impairment or exhaustion of the aggregate
36 limit of liability by amounts paid under the policy in
37 connection with the settlement, discharge, or defense of
38 claims applicable to a designated period shall not require
39 the partnership to acquire additional insurance coverage
40 for that designated period. The policy or policies of

1 insurance may be in a form reasonably available in the
2 commercial insurance market and may be subject to
3 those terms, conditions, exclusions, and endorsements
4 that are typically contained in those policies. A policy or
5 policies of insurance maintained pursuant to this
6 subparagraph may be subject to a deductible or
7 self-insured retention.

8 *Upon the dissolution and winding up of the*
9 *partnership, the partnership shall, with respect to any*
10 *insurance policy or policies then maintained pursuant to*
11 *this subparagraph, maintain or obtain an extended*
12 *reporting period endorsement or equivalent provision in*
13 *the maximum total aggregate limit of liability required to*
14 *comply with this subparagraph for a minimum of three*
15 *years if reasonably available from the insurer.*

16 (B) Each registered limited liability partnership or
17 foreign limited liability partnership providing legal
18 services shall maintain in trust or bank escrow, cash, bank
19 certificates of deposit, United States Treasury obligations,
20 bank letters of credit, or bonds of insurance or surety
21 companies as security for payment of liabilities imposed
22 by law for damages arising out of all claims in an amount
23 of at least one hundred thousand dollars (\$100,000)
24 multiplied by the number of licensed persons rendering
25 professional services on behalf of the partnership;
26 however, the maximum amount of security for
27 *partnerships with fewer than five licensed persons shall*
28 *not be less than five hundred thousand dollars (\$500,000),*
29 *and for all other partnerships* is not required to exceed
30 seven million five hundred thousand dollars (\$7,500,000).
31 The partnership remains in compliance with this section
32 during a calendar year notwithstanding amounts paid
33 during that calendar year from the accounts, funds,
34 Treasury obligations, letters of credit, or bonds in
35 defending, settling, or discharging claims of the type
36 described in this paragraph, provided that the amount of
37 the accounts, funds, Treasury obligations, letters of credit,
38 or bonds was at least the amount specified in the
39 preceding sentence as of the first business day of that
40 calendar year. Notwithstanding the pendency of other

1 claims against the partnership, a registered limited
2 liability partnership or foreign limited liability
3 partnership shall be deemed to be in compliance with this
4 subparagraph as to a claim if within 30 days after the time
5 that a claim is initially asserted through service of a
6 summons, complaint, or comparable pleading in a judicial
7 or administrative proceeding, the partnership has
8 provided the required amount of security by ~~designated~~
9 ~~and segregated~~ *designating and segregating* funds in
10 compliance with the requirements of this subparagraph.

11 (C) Each partner of a registered limited liability
12 partnership or foreign limited liability partnership
13 providing legal services, by virtue of that person's status
14 as a partner, thereby automatically guarantees payment
15 of the difference between the maximum amount of
16 security required for the partnership by ~~paragraph (2) of~~
17 ~~this subdivision~~ *this paragraph* and the security otherwise
18 provided in accordance with the provisions of
19 subparagraphs (A) and (B) ~~of paragraph (2) of this~~
20 ~~subdivision~~, provided that the aggregate amount paid by
21 all partners under these guarantees shall not exceed the
22 difference. ~~Withdrawal by a partner shall not affect the~~
23 ~~rights or obligations of that partner arising prior to~~
24 ~~withdrawal. Nothing~~ *Neither withdrawal by a partner*
25 *nor the dissolution and winding up of the partnership*
26 *shall affect the rights or obligations of a partner arising*
27 *prior to withdrawal or dissolution and winding up, and*
28 *the guarantee provided for in this subparagraph shall*
29 *apply only to conduct that occurred prior to the*
30 *withdrawal or dissolution and winding up. Nothing*
31 contained in this subparagraph shall affect or impair the
32 rights or obligations of the partners among themselves, or
33 the partnership, including, but not limited to, rights of
34 contribution, subrogation, or indemnification.

35 (b) For purposes of satisfying the security
36 requirements of this section, a registered limited liability
37 partnership or foreign limited liability partnership may
38 aggregate the security provided by it pursuant to
39 subparagraphs (A), (B), ~~and (C)~~ (C), and (D) of
40 paragraph (1) of subdivision (a) or subparagraphs (A),

(B), and (C) of paragraph (2) of subdivision (a), as the case may be. Any registered limited liability partnership or foreign limited liability partnership intending to comply with the alternative security provisions set forth in subparagraph ~~(C)~~ (D) of paragraph (1) of subdivision (a) shall furnish the following information to the Secretary of State's office, in the manner prescribed in, and accompanied by all information required by, the applicable section:

TRANSMITTAL FORM FOR EVIDENCING COMPLIANCE
WITH SECTION ~~15052(a)(1)(C)~~ 15052(a)(1)(D) OF THE
CALIFORNIA CORPORATIONS CODE

The undersigned hereby confirms the following:

1. _____
Name of registered or foreign limited liability partnership
2. _____
Jurisdiction where partnership is organized
3. _____
Address of principal office
4. The registered or foreign limited liability partnership renders accountancy services and chooses to satisfy the requirements of Section 15052 by confirming, pursuant to Sections ~~15052(a)(1)(C)~~ 15052(a)(1)(D) and 15052(c), that, as of the most recently completed fiscal year, the partnership had a net worth equal to or exceeding ten million dollars (\$10,000,000).
5. _____
Title of authorized person executing this form
6. _____
Signature of authorized person executing this form

1 (c) Pursuant to subparagraph—(C) (D) of paragraph
2 (1) of subdivision (a), a registered limited liability
3 partnership or foreign limited liability partnership
4 rendering accountancy services may satisfy the
5 requirements of this section by confirming that, as of the
6 last day of its most recently completed fiscal year, it had
7 a net worth equal to or exceeding ten million dollars
8 (\$10,000,000). In order to comply with this alternative
9 method of meeting the requirements established in this
10 section, a registered limited liability partnership or
11 foreign limited liability partnership shall file an annual
12 confirmation with the Secretary of State's office, signed
13 by an authorized member of the registered limited
14 liability partnership or foreign limited liability
15 partnership, accompanied by a transmittal form as
16 prescribed by subdivision (b). In order to be current in
17 a given year, the partnership form for confirming
18 compliance with the optional security requirement shall
19 be on file within four months of the completion of the
20 fiscal year and, upon being filed, shall constitute full
21 compliance with the financial security requirements for
22 purposes of this section as of the beginning of the fiscal
23 year. A confirmation filed during any particular fiscal
24 year shall continue to be effective for the first four months
25 of the next succeeding fiscal year.

26 (d) Neither the existence of the requirements of
27 subdivision (a) nor the extent of the registered limited
28 liability partnership's or foreign limited liability
29 partnership's compliance with the alternative
30 requirements in this section shall be admissible in court
31 or in any way be made known to a jury or other trier of
32 fact in determining an issue of liability for, or to the extent
33 of, the damages in question.

34 (e) Notwithstanding any other provision of this
35 section, if a registered limited liability partnership or
36 foreign limited liability partnership is otherwise in
37 compliance with the terms of this section at the time that
38 a bankruptcy or other insolvency proceeding is
39 commenced with respect to the registered limited
40 liability partnership *or foreign limited liability*

1 *partnership*, it shall be deemed to be in compliance with
 2 this section during the pendency of the proceeding. A
 3 registered limited liability partnership that has been the
 4 subject of a proceeding and that conducts business after
 5 the proceeding ends shall thereafter comply with
 6 paragraph (1) or (2) of subdivision (a), in order to obtain
 7 the limitations on liability afforded by subdivision (b) of
 8 Section 15015.

9 SEC. 2. Section 16955.5 of the Corporations Code is
 10 repealed.

11 SEC. 3. Section 16955.5 is added to the Corporations
 12 Code, to read:

13 16955.5. (a) A partnership that registered as a
 14 registered limited liability partnership prior to January 1,
 15 1997, or a partnership that converted to a registered
 16 limited liability partnership prior to that date shall
 17 continue to be governed by the law in effect prior to the
 18 adoption of this chapter unless it elects to be governed by
 19 this chapter in the manner provided in subdivision (c).

20 (b) A partnership that registers as a registered limited
 21 liability partnership or a partnership that converts to a
 22 registered limited liability partnership on or after January
 23 1, 1997, shall be governed by this chapter but may elect
 24 to be governed by the law in effect prior to adoption of
 25 this chapter in the manner provided in subdivision (c).

26 (c) Any election made pursuant to subdivision (a) or
 27 (b) may be made from time to time and may be revoked,
 28 in each case by the vote of the partners possessing a
 29 majority of the interests of the partners in the current
 30 profits of the partnership or by a different vote as may be
 31 required in the partnership agreement.

32 (d) Any election made pursuant to subdivision (c) and
 33 any revocation of that election shall be set forth in the
 34 registration filed by the registered limited liability
 35 partnership with the Secretary of State, in an amendment
 36 to the registration filed with the Secretary of State, or in
 37 an attachment to the registration or amendment. Any
 38 such election shall terminate and be of no further force
 39 or effect on or after January 1, 1999. After that date the
 40 registered limited liability partnership shall be governed

1 by the law as specified in subdivisions (a) and (b) of
2 Section 16111.

3 (e) This section shall remain in effect only until
4 January 1, 1999, and as of that date is repealed, unless a
5 later enacted statute, that is enacted before January 1,
6 1999, deletes or extends that date.

7 SEC. 4. Section 16956 of the Corporations Code is
8 amended to read:

9 16956. (a) At the time of registration pursuant to
10 Section 16953, in the case of a registered limited liability
11 partnership, and Section 16959, in the case of a foreign
12 limited liability partnership, and at all times during which
13 those partnerships shall transact intrastate business,
14 every registered limited liability partnership and foreign
15 limited liability partnership, as the case may be, shall be
16 required to provide security for claims against it as
17 follows:

18 (1) For claims based upon acts, errors, or omissions
19 arising out of the practice of public accountancy, a
20 registered limited liability partnership or foreign limited
21 liability partnership providing accountancy services shall
22 comply with one, or pursuant to subdivision (b) some
23 combination, of the following:

24 (A) Maintaining a policy or policies of insurance
25 against liability imposed on or against it by law for
26 damages arising out of claims in an amount for each claim
27 of at least one hundred thousand dollars (\$100,000)
28 multiplied by the number of licensed persons rendering
29 professional services on behalf of the partnership;
30 however, the total aggregate limit of liability under the
31 policy or policies of insurance *for partnerships with fewer*
32 *than five licensed persons shall not be less than five*
33 *hundred thousand dollars (\$500,000), and for all other*
34 *partnerships* is not required to exceed five million dollars
35 (\$5,000,000) in any one designated period, less amounts
36 paid in defending, settling, or discharging claims as set
37 forth in this subparagraph. The policy or policies may be
38 issued on a claims-made or occurrence basis, and shall
39 cover: (i) in the case of a claims-made policy, claims
40 initially asserted in the designated period, and (ii) in the

1 case of an occurrence policy, occurrences during the
 2 designated period. For purposes of this subparagraph,
 3 “designated period” means a policy year or any other
 4 period designated in the policy that is not greater than 12
 5 months. The impairment or exhaustion of the aggregate
 6 limit of liability by amounts paid under the policy in
 7 connection with the settlement, discharge, or defense of
 8 claims applicable to a designated period shall not require
 9 the partnership to acquire additional insurance coverage
 10 for that designated period. The policy or policies of
 11 insurance may be in a form reasonably available in the
 12 commercial insurance market and may be subject to
 13 those terms, conditions, exclusions, and endorsements
 14 that are typically contained in those policies. A policy or
 15 policies of insurance maintained pursuant to this
 16 subparagraph may be subject to a deductible or
 17 ~~self-insured retention not to exceed a maximum amount~~
 18 ~~equal to 10 percent of the aggregate limit of liability~~
 19 ~~specified by this subparagraph. However, a deductible or~~
 20 ~~self-insured retention may exceed that maximum amount~~
 21 ~~if the partnership maintains funds in the manner~~
 22 ~~provided for in subparagraph (B) in the amount of the~~
 23 ~~difference between the actual deductible or self-insured~~
 24 ~~retention and that maximum amount, or otherwise~~
 25 ~~obtains a commitment of the insurer issuing the policy to~~
 26 ~~the effect that the insurer will cover the difference.~~
 27 *self-insured retention.*

28 *Upon the dissolution and winding up of the*
 29 *partnership, the partnership shall, with respect to any*
 30 *insurance policy or policies then maintained pursuant to*
 31 *this subparagraph, maintain or obtain an extended*
 32 *reporting period endorsement or equivalent provision in*
 33 *the maximum total aggregate limit of liability required to*
 34 *comply with this subparagraph for a minimum of three*
 35 *years if reasonably available from the insurer.*

36 (B) Maintaining in trust or bank escrow, cash, bank
 37 certificates of deposit, United States Treasury obligations,
 38 bank letters of credit, or bonds of insurance or surety
 39 companies as security for payment of liabilities imposed
 40 by law for damages arising out of all claims in an amount

1 of at least one hundred thousand dollars (\$100,000)
2 multiplied by the number of licensed persons rendering
3 professional services on behalf of the partnership;
4 however, the maximum amount of security for
5 *partnerships with fewer than five licensed persons shall*
6 *not be less than five hundred thousand dollars (\$500,000),*
7 *and for all other partnerships* is not required to exceed
8 five million dollars (\$5,000,000). The partnership remains
9 in compliance with this section during a calendar year
10 notwithstanding amounts paid during that calendar year
11 from the accounts, funds, Treasury obligations, letters of
12 credit, or bonds in defending, settling, or discharging
13 claims of the type described in this paragraph, provided
14 that the amount of those accounts, funds, Treasury
15 obligations, letters of credit, or bonds was at least the
16 amount specified in the preceding sentence as of the first
17 business day of that calendar year. Notwithstanding the
18 pendency of other claims against the partnership, a
19 registered limited liability partnership or foreign limited
20 liability partnership shall be deemed to be in compliance
21 with this subparagraph as to a claim if within 30 days after
22 the time that a claim is initially asserted through service
23 of a summons, complaint, or comparable pleading in a
24 judicial or administrative proceeding, the partnership has
25 provided the required amount of security by ~~designated~~
26 ~~and segregated~~ *designating and segregating* funds in
27 compliance with the requirements of this subparagraph.

28 (C) *Unless the partnership has satisfied subparagraph*
29 *(D), each partner of a registered limited liability*
30 *partnership or foreign limited liability partnership*
31 *providing accountancy services, by virtue of that person's*
32 *status as a partner, thereby automatically guarantees*
33 *payment of the difference between the maximum*
34 *amount of security required for the partnership by this*
35 *paragraph and the security otherwise provided in*
36 *accordance with subparagraphs (A) and (B), provided*
37 *that the aggregate amount paid by all partners under*
38 *these guarantees shall not exceed the difference. Neither*
39 *withdrawal by a partner nor the dissolution and winding*
40 *up of the partnership shall affect the rights or obligations*

1 *of a partner arising prior to withdrawal or dissolution and*
2 *winding up, and the guarantee provided for in this*
3 *subparagraph shall apply only to conduct that occurred*
4 *prior to the withdrawal or dissolution and winding up.*
5 *Nothing contained in this subparagraph shall affect or*
6 *impair the rights or obligations of the partners among*
7 *themselves, or the partnership, including, but not limited*
8 *to, rights of contribution, subrogation, or indemnification.*

9 (D) Confirming, pursuant to the procedure in
10 subdivision (c), that, as of the most recently completed
11 fiscal year of the partnership, it had a net worth equal to
12 or exceeding ten million dollars (\$10,000,000).

13 (2) For claims based upon acts, errors, or omissions
14 arising out of the practice of law, a registered limited
15 liability partnership or foreign limited liability
16 partnership providing legal services shall comply with
17 one, or pursuant to subdivision (b) some combination, of
18 the following:

19 (A) Each registered limited liability partnership or
20 foreign limited liability partnership providing legal
21 services shall maintain a policy or policies of insurance
22 against liability imposed on or against it by law for
23 damages arising out of claims in an amount for each claim
24 of at least one hundred thousand dollars (\$100,000)
25 multiplied by the number of licensed persons rendering
26 professional services on behalf of the partnership;
27 however, the total aggregate limit of *liability under the*
28 *policy or policies of* ~~liability under insurance~~ *insurance for*
29 *partnerships with fewer than five licensed persons shall*
30 *not be less than five hundred thousand dollars (\$500,000),*
31 *and for all other partnerships* is not required to exceed
32 seven million five hundred thousand dollars (\$7,500,000)
33 in any one designated period, less amounts paid in
34 defending, settling, or discharging claims as set forth in
35 this subparagraph. The policy or policies may be issued on
36 a claims-made or occurrence basis, and shall cover (i) in
37 the case of a claims-made policy, claims initially asserted
38 in the designated period, and (ii) in the case of an
39 occurrence policy, occurrences during the designated
40 period. For purposes of this subparagraph, “designated

1 period” means a policy year or any other period
2 designated in the policy that is not greater than 12
3 months. The impairment or exhaustion of the aggregate
4 limit of liability by amounts paid under the policy in
5 connection with the settlement, discharge, or defense of
6 claims applicable to a designated period shall not require
7 the partnership to acquire additional insurance coverage
8 for that designated period. The policy or policies of
9 insurance may be in a form reasonably available in the
10 commercial insurance market and may be subject to
11 those terms, conditions, exclusions, and endorsements
12 that are typically contained in those policies. A policy or
13 policies of insurance maintained pursuant to this
14 subparagraph may be subject to a deductible or
15 self-insured retention.

16 *Upon the dissolution and winding up of the*
17 *partnership, the partnership shall, with respect to any*
18 *insurance policy or policies then maintained pursuant to*
19 *this subparagraph, maintain or obtain an extended*
20 *reporting period endorsement or equivalent provision in*
21 *the maximum total aggregate limit of liability required to*
22 *comply with this subparagraph for a minimum of three*
23 *years if reasonably available from the insurer.*

24 (B) Each registered limited liability partnership or
25 foreign limited liability partnership providing legal
26 services shall maintain in trust or bank escrow, cash, bank
27 certificates of deposit, United States Treasury obligations,
28 bank letters of credit, or bonds of insurance or surety
29 companies as security for payment of liabilities imposed
30 by law for damages arising out of all claims in an amount
31 of at least one hundred thousand dollars (\$100,000)
32 multiplied by the number of licensed persons rendering
33 professional services on behalf of the partnership;
34 however, the maximum amount of security for
35 *partnerships with fewer than five licensed persons shall*
36 *not be less than five hundred thousand dollars (\$500,000),*
37 *and for all other partnerships* is not required to exceed
38 seven million five hundred thousand dollars (\$7,500,000).
39 The partnership remains in compliance with this section
40 during a calendar year notwithstanding amounts paid

1 during that calendar year from the accounts, funds,
 2 Treasury obligations, letters of credit, or bonds in
 3 defending, settling, or discharging claims of the type
 4 described in this paragraph, provided that the amount of
 5 those accounts, funds, Treasury obligations, letters of
 6 credit, or bonds was at least the amount specified in the
 7 preceding sentence as of the first business day of that
 8 calendar year. Notwithstanding the pendency of other
 9 claims against the partnership, a registered limited
 10 liability partnership or foreign limited liability
 11 partnership shall be deemed to be in compliance with this
 12 subparagraph as to a claim if within 30 days after the time
 13 that a claim is initially asserted through service of a
 14 summons, complaint, or comparable pleading in a judicial
 15 or administrative proceeding, the partnership has
 16 provided the required amount of security by ~~designated~~
 17 ~~and segregated~~ *designating and segregating* funds in
 18 compliance with the requirement of this subparagraph.

19 (C) Each partner of a registered limited liability
 20 partnership or foreign limited liability partnership
 21 providing legal services, by virtue of that person's status
 22 as a partner, thereby automatically guarantees payment
 23 of the difference between the maximum amount of
 24 security required for the partnership by ~~paragraph (2) of~~
 25 ~~this subdivision~~ *this paragraph* and the security otherwise
 26 provided in accordance with the provisions of
 27 subparagraphs (A) and (B) ~~of paragraph (2) of this~~
 28 ~~subdivision~~, provided that the aggregate amount paid by
 29 all partners under these guarantees shall not exceed the
 30 difference. ~~Withdrawal by a partner shall not affect the~~
 31 ~~rights or obligations of that partner arising prior to~~
 32 ~~withdrawal. Nothing~~ *Neither withdrawal by a partner*
 33 *nor the dissolution and winding up of the partnership*
 34 *shall affect the rights or obligations of a partner arising*
 35 *prior to withdrawal or dissolution and winding up, and*
 36 *the guarantee provided for in this subparagraph shall*
 37 *apply only to conduct that occurred prior to the*
 38 *withdrawal or dissolution and winding up. Nothing*
 39 contained in this subparagraph shall affect or impair the
 40 rights or obligations of the partners among themselves, or

the partnership, including, but not limited to, rights of contribution, subrogation, or indemnification.

(b) For purposes of satisfying the security requirements of this section, a registered limited liability partnership or foreign limited liability partnership may aggregate the security provided by it pursuant to subparagraphs (A), (B), ~~and (C)~~ (C), and (D) of paragraph (1) of subdivision (a) or subparagraphs (A), (B), and (C) of paragraph (2) of subdivision (a), as the case may be. Any registered limited liability partnership or foreign limited liability partnership intending to comply with the alternative security provisions set forth in subparagraph ~~(C)~~ (D) of paragraph (1) of subdivision (a) shall furnish the following information to the Secretary of State's office, in the manner prescribed in, and accompanied by all information required by, the applicable section:

TRANSMITTAL FORM FOR EVIDENCING COMPLIANCE
WITH SECTION ~~16956(a)(1)(C)~~ 16956(a)(1)(D) OF THE
CALIFORNIA CORPORATIONS CODE

The undersigned hereby confirms the following:

1. _____
Name of registered or foreign limited liability partnership
2. _____
Jurisdiction where partnership is organized
3. _____
Address of principal office
4. The registered or foreign limited liability partnership renders accountancy services and chooses to satisfy the requirements of Section 16956 by confirming, pursuant to Sections ~~16956(a)(1)(C)~~ 16956(a)(1)(D) and 16956(c), that, as of the most recently completed fiscal year, the partnership had a net worth equal to or exceeding ten million dollars (\$10,000,000).

5. _____
Title of authorized person executing this form

6. _____
Signature of authorized person executing this form

(c) Pursuant to subparagraph—(C) (D) of paragraph (1) of subdivision (a), a registered limited liability partnership or foreign limited liability partnership rendering accountancy services may satisfy the requirements of this section by confirming that, as of the last day of its most recently completed fiscal year, it had a net worth equal to or exceeding ten million dollars (\$10,000,000). In order to comply with this alternative method of meeting the requirements established in this section, a registered limited liability partnership or foreign limited liability partnership shall file an annual confirmation with the Secretary of State's office, signed by an authorized member of the registered limited liability partnership or foreign limited liability partnership, accompanied by a transmittal form as prescribed by subdivision (b). In order to be current in a given year, the partnership form for confirming compliance with the optional security requirement shall be on file within four months of the completion of the fiscal year and, upon being filed, shall constitute full compliance with the financial security requirements for purposes of this section as of the beginning of the fiscal year. A confirmation filed during any particular fiscal year shall continue to be effective for the first four months of the next succeeding fiscal year.

(d) Neither the existence of the requirements of subdivision (a) nor the extent of the registered limited liability partnership's or foreign limited liability partnership's compliance with the alternative requirements in this section shall be admissible in court or in any way be made known to a jury or other trier of fact in determining an issue of liability for, or to the extent of, the damages in question.

1 (e) Notwithstanding any other provision of this
2 section, if a registered limited liability partnership or
3 foreign limited liability partnership is otherwise in
4 compliance with the terms of this section at the time that
5 a bankruptcy or other insolvency proceeding is
6 commenced with respect to the registered limited
7 liability partnership *or foreign limited liability*
8 *partnership*, it shall be deemed to be in compliance with
9 this section during the pendency of the proceeding. A
10 registered limited liability partnership that has been the
11 subject of a proceeding and that conducts business after
12 the proceeding ends shall thereafter comply with
13 paragraph (1) or (2) of subdivision (a), in order to obtain
14 the limitations on liability afforded by subdivision (c) of
15 Section 16306.

